Testimony of

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Finance, Revenue & Bonding Committee
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SB 380 An Act Concerning a Study of State Tax Policies

SB 381 An Act Concerning a Study of State Revenue Collections

SB 382 An Act Concerning a Connecticut New Market Tax Credit Program

SB 383 An Act Increasing the Applicable Percentage of the Earned Income Tax Credit

HB 5403 An Act Establishing a Child Tax Credit Against the Personal Income Tax

HB 5406 An Act Concerning a Study of State Revenue Policies

HB 5407 An Act Concerning Study of State Fiscal Policies

Good morning Senator Fonfara, Representative Scanlon and members of the Finance, Revenue & Bonding Committee. My name is Ed Hawthorne, and I am proud to serve as the President of the Connecticut AFL-CIO, a federation of hundreds of local unions representing more than 200,000 members in the private sector, public sector, and building trades. Our members live and work in every city and town in our state and reflect the diversity that makes Connecticut great. I am also here today to testify as a member of Recovery For All, a statewide coalition of faith, community, and labor organizations united to eliminate systemic inequalities and rebuild a better Connecticut. Thank you for the opportunity to testify in on SB 380, SB 381 and SB 382, SB 383, HB 5403, HB 5406 and HB 5407.

The 2014 state tax incidence analysis performed by the Department of Revenue Services showed that the bottom 50% of earners contribute 23.6% of their income in taxes, but the top 1% contribute only 7.5%. The long anticipated follow up report released earlier this month shows that low-income households have lost ground. They now pay up to 26% of their income in taxes. Middle income households are also paying more - as much as 15.5%. Yet the ultra-wealthy's effective tax rate has remained flat. To put it simply, Connecticut's tax system is even more regressive now than it was in 2014.

As hard as they try, working families just can't get ahead. By contrast, the ultra-wealthy have done very well. Just since the beginning of the pandemic, Connecticut's 13 billionaires seized $13.7 billion in additional wealth – adding on average $1 billion each – while hundreds of thousands of working people, especially working people of color, were financially devastated. This is a disgrace. We are going in the wrong direction, and it is incumbent upon this committee to right the ship. You passed a comprehensive, progressive revenue package in 2021. We're asking you to do that again to give low- and middle-income earners a fighting chance to thrive. No one should be forced to live in constant survival mode. That's not who we want to be.

SB 383 and HB 5403 would begin a Recovery For All by providing immediate and permanent relief to those who need it most. The Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) are financial lifelines for low-income individuals and families. They have reduced poverty for working individuals and families and prevented millions of others from being pushed into poverty in the first place. Each is an equitable, long-term solution that also reduces racial disparities, builds financial security and creates economic mobility. Together, permanently raising the Earned Income Tax Credit (EITC) to 41.5% and pairing it with the CTC, will allow working families to make ends meet, provide for their children and save for a rainy day. These are gamechangers for working families.

Some have suggested that the EITC and CTC are duplicative, and that Connecticut doesn't need both. We completely disagree. The EITC provides support to lower-income families with children. Unlike the EITC, the CTC is not targeted to just lower-income taxpayers and it is refundable. The CTC would allow all recipients to reduce their tax burdens, but also spend money directly on child-related expenses like childcare. Both have significant multiplier effects. For every dollar Connecticut spends on expanding the EITC, $1.24 will be spent in state economy. For every $1 spent on the child tax credit, the state can expect a $1.38 return. We urge the Committee to adopt SB 383 and HB 5403 in tandem.

SB 380, HB 5406 and HB 5407 are study bills. The 2022 tax incidence report I noted earlier gives you the information you need to make transformative change. It essentially provides you with a roadmap for how and where to act. Studies take time and can delay progress. It's also unlikely that the Department of Revenue Services would produce anything as detailed and comprehensive as the 2022 Tax Incidence Report before January 2023. Please don't let these study bills delay your efforts to build fairness into the tax code and provide relief and to low- and middle-income taxpayers.

With regard to SB 381, we suggest that the Department of Revenue Services not be the sole entity to conduct a study of its own efficiency and effectiveness. The Department has already acknowledged that it is significantly understaffed but has been unable or unwilling to correct that problem. At the informational briefing hosted by this Committee on March 11th, Commissioner Boughton and his team reported that each auditor collects an average of $800 per hour ($2 million per year) in outstanding taxes, yet the Department is not even close to full capacity in terms of the number of auditors it employs. They also freely admitted that they fall far below staffing levels of revenue departments in other states. That problem is only getting worse as the Department is expecting 13% of its auditing division to retire before July 1, 2022. Understanding that auditors recoup multiples of what it costs to employ them, it's unfathomable why the Department has not kept pace to fill vacancies and plan for the future. The Department's failure of its primary mission – to collect taxes – is one that we all feel in unfair tax burdens, unfunded programs and underfunded services.

To improve efficiency and reduce administrative costs of the collection process, we ask the Committee to consider including auditors and their bargaining agent representative to participate in the study required by SB 381. We would also recommend including an outside neutral party to provide fresh eyes and an objective perspective on Department operations.

SB 382 has the potential to change the face our struggling communities by stimulating economic development in ways that create good jobs, expand access to healthy foods in food deserts and improving environmental factors. We hope this proposal will strategically incentivize the kinds of investments-in-place that build wealth, reduce income inequality and contribute to economic growth in underserved communities. We encourage the Committee to support this creative approach to build equity.

The scale of Connecticut's inequality and the pandemic's economic devastation demands a bold response. We have an unprecedented opportunity to stop the hurt so many families are feeling by funding relief measures and essential services, reducing economic and racial inequality, and setting our state on a path to robust economic recovery by restoring fairness to our tax code.

Thank you for the opportunity to testify.